COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0098-02
Bill No.: HCS for HB 408
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: March 8, 2011

Bill Summary: Would change corporate income tax rates, eliminate the corporate franchise tax, and add a .494% sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	($150,644)	($71,864)	($72,613)
Total Estimated Net Effect on General Revenue Fund	**($150,644)**	**($71,864)**	**($72,613)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	2	2	2
Total Estimated Net Effect on FTE	**2**	**2**	**2**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

This proposal would reduce the corporate income tax rate from 6.25% to 3.125% for all years beginning on or after Jan. 1, 2012. This provision would impact FY 2013. Net corporate income tax collections in FY 2010 were $195 million. Therefore, this provision would reduce general and total state revenues by $97.5 million. Similarly, in FY 2008 net corporate income tax collections were about $370 million which would imply a loss of $185 million.

This proposal would also create an additional sales tax of 0.494% beginning in FY 2013. In FY 2010, the current 3% general sales tax totaled $1,731.7 million. This implies the increase in the sales tax rate might generate an additional $285.2 million in general and total state revenues. Similarly, in FY 2008, at 3%, the 3% general revenue sales tax totaled $1,931.1 million which would imply the additional tax rate might generate $318 million.

This proposal would end the corporate franchise tax as of January 1, 2013. This provision would impact collections beginning in FY 2013. Net franchise tax collections in FY 2010 totaled $91.6 million. Collections were expected to be an estimated $14.6 million less in FY11 according to the fiscal note for HB191 (2009). Therefore, this provision could reduce general and total state revenues by $77 million.

ASSUMPTION (continued)

BAP officials provided an estimate of total revenue reductions from $174.5 million to $262 million, and total additional revenues from $285 to $318 million.

Officials from the **Department of Revenue** (DOR) assume this proposal would eliminate the franchise tax, reduce the corporate income tax rate, and raise the sales tax rate by .494%. These changes would appear to create a net increase in FY 2013 and FY 2014 Total State Revenue of approximately $322.5 million. DOR would need to make program changes to the Sales Tax, Corporate Income Tax, and Franchise Tax systems.

DOR officials also provided the following information about tax collections for the year ended June 30, 2010.

Sales Tax	$1,790,181,504
Corporate income tax	$414,639,561
Franchise tax	$87,451,757

Administrative cost

DOR officials assume that Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) for every 7,800 additional errors generated, CARES phones & Agent License required, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for every 2,600 pieces of additional correspondence generated, CARES phones & Agent License required.

In addition, DOR officials assume that Sales Tax would need to notify taxpayers of the new sales tax rate. DOR estimated approximately 150,000 letters would be sent at a cost per letter of $0.505 for postage, paper, printing, and envelopes for a total of $75,750.

The DOR estimate of cost to implement this proposal including two additional employees and the related fringe benefits, equipment, and expense totaled $159,373 in FY 2012, $81,203 in FY 2013, and $82,061 in FY 2014.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense costs in accordance with OA budget guidelines, and Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight also assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $5,000 per employee.

IT cost

The DOR estimate of IT cost to implement this proposal was $11,130 based on 420 hours to make programming changes to DOR systems.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the **University of Missouri, Economic Policy and Analysis Research Center** (EPARC) assume this proposal, if enacted, would reduce the Missouri corporate income tax by 50%, eliminate the corporate franchise tax, and increase the current sales tax rate by 0.494 %.

Reducing Missouri Corporate Income Tax Rate

Currently the baseline for our Corporate Income Tax Simulation is $369.862 million. Reducing the corporate income tax rate to 3.125% would reduce this liability to $184.931 million. Therefore, the impact of reducing the Missouri Corporate income tax rate to 3.125% would be a decrease in net general revenue of $184.931 million.

ASSUMPTION (continued)

Eliminating the Corporate Franchise Tax

Currently our database estimates corporate franchise tax collections at $76.703 million. Therefore, impact of eliminating the franchise tax would be a decrease in net general revenue of $76.703 million.

Increasing Sales Tax

The net sales tax amount for calendar year 2010 was $1,731.7 million at the current tax rate of 3%. Therefore, the estimated impact of this sales tax increase would be an increase in net general revenue of $285.153 million.

If enacted, the net impact of this proposal would be a $23.519 million increase in net general revenue.

Based on actual reported DOR collections, **Oversight** assumes the revenue impact of this proposal could be calculated as follows:

A. Corporate income tax reduction - FY 2010 collections of $414.6 million x 50% rate reduction = $207.3 million revenue reduction.

B. Franchise tax elimination - revenue reduction equal to reported FY 2010 collections of $87.5 million.

C. Sales tax increase of $0.494 - revenue increase equal to FY 2010 sales tax collections of $1,790.2 million divided by 3cents and that result multiplied 0.494 cents. (($1,790,200,000 / 3) = $596,733,000 x 0.494) = $294,786,000.

Total calculated revenue impact:

Corporate income tax reduction	($207.3 million)
Corporate franchise tax reduction	($87.5 million)
Sales tax increase	$294.8 million
Net impact	$0

ASSUMPTION (continued)

Oversight notes that this computation indicates a revenue neutral result for the proposal on an annualized basis; however, these estimates are based on one year's tax collections, on current provisions for corporate income and franchise taxes, and on current definitions of taxable and exempt sales and services for the state General Revenue Fund. Oversight notes that actual tax collections vary from year to year, and that tax provisions are subject to change.

In addition, **Oversight** notes that the corporate income change would become effective for years beginning on or after January 1, 2012 and the franchise tax elimination would become effective for years beginning on or after January 1, 2013. Oversight notes that corporate franchise tax returns for years beginning on or after January 1, 2013 would be filed with corporate income tax returns for years beginning on or after January 1, 2012, and most of those returns would be filed in early 2013 (FY 2013). The sales tax increase would become effective July 1, 2012 and additional sales taxes would be collected and remitted beginning in July, 2012 (FY 2013). Actual sales tax collections would be delayed due to the different reporting requirements for various businesses.

For fiscal note purposes only, **Oversight** will not include a revenue impact for these provisions.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Salaries (2 FTE)	($37,800)	($45,814)	($46,272)
Fringe benefits	($19,785)	($23,979)	($24,219)
Equipment and expense	($93,059)	($2,071)	($2,122)
Total	($150,644)	($71,864)	($72,613)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($150,644)**	**($71,864)**	**($72,613)**
Estimated FTE impact on General Revenue Fund	2	2	2

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact on small businesses which are currently subject to the corporate income tax or the corporate franchise tax, or make sales or purchases which would be subject to the additional sales tax in this proposal.

FISCAL DESCRIPTION

The proposed legislation would change corporate income tax rates, eliminate the corporate franchise tax, and add a .494% sales tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
  Division of Budget and Planning
Department of Revenue
University of Missouri
  Economic Policy and Analysis Research Center

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